

Message Text

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C O N F I D E N T I A L SECTION 01 OF 02 MOSCOW 06333

USDOC FOR BEWT/TDAD AND BEWT/USSR

E.O. 11652: GDS
TAGS: EALR, EEWT, EIND, ENRG, UR
SUBJECT: DRESSER INDUSTRIES REPORTEDLY SIGNS CONTRACT
FOR KUYBYSHEV DRILL BIT PLANT

REF: (A) MOSCOW 4434, (B) STATE 51935

SUMMARY: ACCORDING TO SOVIET FTO STANKOIMPORT AND
TO SECONDARY U.S. BUSINESS SOURCES IN MOSCOW, DRESSER
INDUSTRIES SIGNED CONTRACT WITH SOVIETS FOR ENGINEERING
AND EQUIPPING OF KUYBYSHEV ROCK (DRILL) BIT PLANT ON
MARCH 21 IN MOSCOW. OUR SOURCES SAY THAT TOTAL
VALUE OF CONTRACT WAS \$146 MILLION. IN SEPARATE DEAL,
DRESSER ALSO MAY HAVE WON LARGE CONTRACT TO SUPPLY 21 COM-
PRESSOR STATIONS FOR SAMOTLOR GAS-LIFT PROJECT BUT
WE HAVE NOT BEEN ABLE TO CONFIRM THIS REPORT. END
SUMMARY.

1. AS WASHINGTON AGENCIES AWARE, DRESSER INDUSTRIES
FAILED TO CONCLUDE NEGOTIATIONS ON MAJOR KUYBYSHEV
PROJECT WITH SOVIETS IN FEBRUARY BECAUSE DEPUTY
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MINISTER OF FOREIGN TRADE, N. D. KOMAROV,
UNEXPECTEDLY DEMANDED NEW CONTRACT TERMS WHICH HAD
NEITHER BEEN DISCUSSED NOR AGREED TO IN PREVIOUS
NEGOTIATING SESSIONS. ACCORDING TO JACK MURPHY,
SENIOR VICE PRESIDENT -- OPERATIONS (OFFICE OF
PRESIDENT) FOR DRESSER INDUSTRIES, KOMAROV CAME
BEFORE HIGH-LEVEL TEAM OF DRESSER EXECUTIVES AT

LAST MOMENT BEFORE SCHEDULED SIGNING CEREMONY
IN FEBRUARY AND ROUGHLY INSISTED THAT DRESSER ACCEDE
TO FOLLOWING PROVISIONS BEFORE FTO STANKOIMPORT WOULD
BE AUTHORIZED TO SIGN LONG-DISCUSSED CONTRACT:

--U.S. FIRM WAS TO AGREE NOT TO PURCHASE REQUISITE
MACHINE TOOLS FOR NEW PLANT UNTIL ALL WAS IN READINESS
FOR THEIR INSTALLATION. KOMAROV WAS TO HAVE STATED
THAT SOVIETS WOULD ONLY AGREE TO PAY FOR MACHINE
TOOLS AND OTHER NECESSARY EQUIPMENT/HARDWARE UPON
ACTUAL INSTALLATION, RATHER THAN IN ACCORDANCE WITH
ALREADY-NEGOTIATED PAYMENT SCHEDULE IN CONTRACT
PACKAGE.

--KOMAROV REPORTEDLY STATED FLATLY THAT SOVIETS
WOULD WITHHOLD FIFTY PERCENT OF PAYMENTS FOR DRILL
BIT TECHNOLOGY AND ENGINEERING SERVICES (TOGETHER
COMPRISING ABOUT \$40 MILLION) UNTIL "QUALITY"
DRILL BITS WERE BEING PRODUCED BY NEW PLANT IN KUYBYSHEV.

3. ACCORDING TO MURPHY, KOMAROV SO ENRAGED THE
DRESSER EXECUTIVES BY HIS HIGH-HANDED TACTICS THAT
THEY BROKE OFF NEGOTIATIONS AT THAT POINT --
OSTENSIBLY FOR GOOD. (ALTHOUGH PARA 3, REFTEL B,
INDICATED THAT DRESSER RATHER QUICKLY BACKED OFF
FROM ITS INITIAL HARD POSTURE IN WAKE OF KOMAROV
INTERVENTION AND BEGAN TO PREPARE A NEW PROPOSAL.)
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IN BRIEF CONVERSATION WITH COMATT, DRESSER'S MURPHY
DESCRIBED KOMAROV AS "RUDEST (MAN) I'VE EVER MET*"
MURPHY'S COLLEAGUE, E. C. (NED) BROUN, JR., ALSO
COMPLAINED LOUDLY IN SEPARATE CONVERSATION THAT
SOVIETS HAD "VIOLATED" A "PROTOCOL" WHICH THEY HAD
ALLEGEDLY "SIGNED" IN NEW YORK TWO MONTHS EARLIER.
BOTH MURPHY AND BROUN EXPLAINED THAT THEY WERE TAKEN
COMPLETELY BY SURPRISE AND TOTALLY PUZZLED BY KOMAROV'S
CRUDE LAST-MINUTE ATTEMPT TO WREST FURTHER CONCESSIONS
FROM DRESSER ON THIS IMPORTANT CONTRACT. FIRM
REJECTED KOMAROV'S FIRST DEMAND ON GROUNDS THAT
TWO-YEAR DELAY IN PURCHASING MACHINE TOOLS FROM MORE
THAN 50 U.S. MANUFACTURERS WOULD, BECAUSE OF INFLATION,
HAVE RAISED EQUIPMENT COSTS AND HAVE DELAYED SOVIET
PAYMENT FOR THEM BEYOND ACCEPTABLE LIMITS. SECOND
DEMAND WAS CONSIDERED TOTALLY UNREALISTIC, ESPECIALLY
SINCE SOVIETS WOULD NOT HAVE ALLOWED DRESSER QUALITY
CONTROL PEOPLE ON FLOOR OF PLANT.

4. UNFORTUNATELY, WE HAVE HAD NO DIRECT CONTACT
WITH DRESSER INDUSTRIES PEOPLE ON REPORTS OF ITS
FINAL SUCCESS ON KUYBYSHEV CONTRACT. A CALL TO

DIRECTOR OF STANKOIMPORT'S OFFICE 14 (IMPORTS OF SPECIAL AND COMPLETE FORGE AND PRESS EQUIPMENT), HOWEVER, CONFIRMED REPORT THAT DRESSER HAD INDEED WON CONTRACT FOR KUYBYSHEV DRILL BIT PLANT BUT FTO OFFICIAL WOULD PROVIDE NO DETAILS. THUS, WE ARE IN DARK ABOUT WHAT CONCESSIONS, IF ANY, FIRM HAD TO MAKE IN ORDER TO SECURE THIS SIZEABLE PIECE

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C O N F I D E N T I A L SECTION 02 OF 02 MOSCOW 06333

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OF BUSINESS. WE DO UNDERSTAND THAT DEAL WAS CON-
CLUDED ON "CASH" BASIS, I.E., NO LONG-TERM FINANCING
WAS REPORTEDLY INVOLVED.

5. IN A RELATED DEVELOPMENT, WE HAVE ALSO HEARD THAT DRESSER WAS CLOSE TO SIGNING ANOTHER MAJOR CONTRACT WITH SOVIETS IN MID-MARCH TO PROVIDE 21 COMPRESSOR STATIONS, INCLUDING COMPRESSOR CASES AND ASSOCIATED AUXILIARY SYSTEMS, SPARE PARTS AND ENGINEERING DESIGN, FOR HIGH PRESSURE GAS INJECTION USED IN SECONDARY RECOVERY OF OIL IN SAMOTLOR FIELDS AND IN OIL WELLS AROUND UST'-BALYK. THIS MAY, IN PART, HAVE BEEN RESULT OF FIRM'S EFFORTS TO SECURE SUB-CONTRACT WITH MITSUBISHI, IHI AND TECHNIP ON SAMOTLOR GAS-LIFT PROJECT. ACCORDING TO OUR SOURCE (A LOWER-RANKING DRESSER EXEC) CONTRACT, IF SIGNED, WOULD HAVE BEEN FINANCED WITH CANADIAN EDC CREDITS AND MAJORITY OF EQUIPMENT WOULD HAVE BEEN SOURCED IN CANADA EXCEPT FOR ABOUT 15 PERCENT OF

CONTRACT'S TOTAL VALUE (APPROX. \$6 MILLION) FOR
ROTOR BLADES AND ENGINEERING SERVICES FROM UNITED
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STATES. SOURCE SAID THAT SOVIETS TOLD DRESSER THAT
COMING TO TERMS ON THIS SMALLER CONTRACT WOULD BE
A KEY TO CONCLUDING KUYBYSHEV DRILL BIT CONTRACT.
HAVING HEARD NOTHING MORE, WE WONDER WHETHER DRESSER'S
FINAL SUCCESS ON LATTER CONTRACT INDICATES THAT FIRM
WON FORMER CONTRACT AS WELL. PROBABLY NOT, BUT
WE WILL SEEK FURTHER INFORMATION ON SAMOTLOR CONTRACT
AND REPORT OUR FINDINGS AS THEY ARE DEVELOPED.

6. COMMENT: ONE OF EMBASSY'S PROBLEMS IN SECURING
FULL INFORMATION ON DRESSER'S COMMERCIAL ACTIVITIES
IN USSR IS THAT FIRM, BY ITS OWN ACCOUNT, PREFERENCES
TO MAINTAIN A "LOWPROFILE" IN SOVIET UNION AND
RARELY CALLS UPON U. S. COMMERCIAL OFFICE FOR
ASSISTANCE OR ADVICE. NONETHELESS, IT IS NOT TOO
SURPRISING -- IN RETROSPECT -- TO FIND THAT DESPITE
MINISTRY OF FOREIGN TRADE'S THREATS AND BLUSTER,
DRESSER WAS FINALLY CHOSEN TO BUILD KUYBYSHEV PLANT.
FOR ONE THING, ALL OTHER WESTERN COMPETITION HAD
PACKED IT IN LONG AGO AND SOVIETS WERE FACED WITH
ALTERNATIVE OF EITHER AWARDED CONTRACT TO DRESSER
AND GETTING ON WITH THIS IMPORTANT PROJECT -- AT
A TIME WHEN PUSH IS ON FOR OIL AND GAS EXPLORATION
AND RECOVERY -- OR ATTEMPTING TO BUILD PLANT ON
THEIR OWN. FACT THAT SOVIETS OPTED -- WISELY IN
OUR VIEW -- FOR FIRST COURSE CAN BE SEEN AS A VICTORY
FOR MINISTRIES OF OIL, GAS AND GEOLOGY, ALL OF WHICH
WILL BE PRIMARY END-USERS OF DRILL BIT PLANT'S
OUTPUT, AND A DEFEAT OF SORTS FOR MFT. SUCH LAST
MINUTE PENNY-PINCHING AS WAS EXHIBITED BY MFT DURING
FEBRUARY AS OFTEN AS NOT WORKS ULTIMATELY TO DETRIMENT
OF SOVIET INDUSTRY BY DELAYING CONCLUSION OF VITAL
CONTRACTS -- AT EXPENSE OF OVERALL ECONOMIC PLAN.
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